

September 27, 2002

To: Supervisor Zev Yaroslavsky, Chair  
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From: David E. Janssen  
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## **STATE LEGISLATIVE UPDATE**

### **Legislative Analyst Releases California Spending Plan 2002-03**

The Legislative Analyst's Office (LAO) issued its annual report today on the Budget Act and Related Legislation. The report contains separate sections on the causes of the nearly \$24 billion budget shortfall, major actions to close the funding gap, and detailed discussions of the impact of the adopted budget on State departments and programs.

The LAO traces the roots of the State's budget deficit to an "unprecedented decline in General Fund revenues in 2001-02 and 2002-03, along with projected continued growth in General Fund expenditures during the two years." The primary factor behind the severe revenue decline was the sharp drop in stock market-related revenues. According to the LAO, capital gains fell from \$17 billion in 2000-01 to approximately \$6 billion in both 2001-02 and 2002-03. More dramatically, State income tax receipts as a percentage of State personal income declined from 4.1 percent to 3 percent over the last year.

The major budget actions to address this year's shortfall are:

- Program Cost Savings      \$7.5 billion including \$750 million in unallocated reductions to State operations, \$285 million in savings from an early retirement program, and \$75 million from the elimination of vacant positions.

- Increased Borrowing \$5.6 billion including \$4.5 billion from the securitization of future tobacco settlement payments.
- Interfund Loans, Funding Shifts, and Transfers \$4.8 billion including \$2 billion in loans.
- Revenue Increases \$2.9 billion including a two-year suspension of the net operating loss carry forward deduction.
- Deferral of Certain Education Disbursements \$1.7 billion
- Increased Federal Funding Assumptions \$1.1 billion including an increase in the Federal sharing ratio for Medi-Cal funding (\$400 million), \$350 million for security and bioterrorism funding, and \$91 million for relief from child support system penalties.

The LAO notes that many of these solutions to the budget shortfall of 2002-03 are either one-time or of limited duration. Some, such as the special fund loans, borrowing, and net operating loss suspension will result in General Fund budgetary obligations in later years. Because there are a limited amount of continuing savings in the budget for 2002-03, the LAO continues to foresee "large multibillion dollar shortfalls in 2003-04 and beyond, absent corrective actions".

The complete report is available at <http://www.lao.ca.gov> .

We will continue to keep you advised.

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